

SASKATCHEWAN OPPORTUNITIES CORPORATION

# THIRD QUARTER REPORT 2014

FOR THE NINE MONTH PERIOD ENDED SEPTEMBER 30, 2014



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# STRATEGIC DIRECTION

## MISSION

*To support the growth and success of the Saskatchewan technology sector through the development and operation of technology parks.*

## VISION

*Saskatchewan's technology parks will be the best in the world.*

## VALUES

<b>Innovation</b>	Leadership in the introduction of new solutions in design, operations and sustainability.
<b>Collaboration</b>	Open and accountable in all our partnerships.
<b>Excellence</b>	The pursuit of quality beyond competence and efficiency to create an attractive and livable work environment for our clients.

## GOALS

### Public Purpose

Grow Saskatchewan's technology sector by contributing to the growth of the parks' clients, supporting the establishment of new technology companies and attracting new science and technology activity to the province.

### Stakeholders

Make it easy for all stakeholders to successfully accomplish their objectives in an environment of fairness, transparency and well being.

### Financial

Maintain profitability at a level that supports the success of our parks by prudently managing expenditures and enhancing revenues while providing superior value to our tenants.

### Innovation

Through our efforts and by the example we set, enhance the performance of our industry, our environment and the people we serve.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

The following management discussion and analysis should be read in conjunction with the Corporation's unaudited interim financial statements and notes to those statements for the nine months ended September 30, 2014. What follows will provide the context within which the Corporation's unaudited interim financial statements should be analyzed. The Board of Directors for Saskatchewan Opportunities Corporation has approved these interim financial statements. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2013.

## FORWARD LOOKING INFORMATION

This discussion includes forward looking statements about SOCO's corporate direction and financial objectives. Due to the risks and uncertainties inherent in any forecast, the actual results could differ materially from those anticipated.

## CORPORATE OVERVIEW

SOCO operates under the business name of Innovation Place. The corporate mission is to support the growth and success of Saskatchewan's technology sector. Innovation Place fulfills this mission through the development and operation of technology parks on the campuses of the province's two universities in Saskatoon and Regina as well as a forest sector building in downtown Prince Albert.

The Saskatoon campus began operations in 1980 and presently is home to 113 tenants that occupy approximately 1.2 million square feet in 20 separate buildings. The Regina campus, opened in 2000, consists of 6 buildings housing 30 tenants and totaling approximately 465,000 square feet. The building in Prince Albert, opened in 2004, is 115,000 square feet and accommodates 22 tenants. The number of people working in Innovation Place facilities totals 4,332 spread proportionately through the three locations.

## CORE BUSINESS

Innovation Place manages specialized buildings primarily for technology companies and the service organizations that support them. Building specialization includes research greenhouses, laboratory buildings and industrial pilot plants. Specialized infrastructure includes laboratory utilities such as pure water and steam, process utilities such as high pressure steam and chilled water as well as a high performance data network.

Revenue is generated from leasing space in these buildings to a wide range of tenants that support each other's success. A typical lease arrangement would include a five year term with fixed revenue, adjusted annually for any increase in operating costs. Typical vacancy within buildings is approximately five percent. Major categories of operating costs include utilities, municipal property taxes, building and grounds maintenance and corporate administration. In general, both revenue and expenses are not subject to rapid change. Profitability is tightly linked to local real estate market conditions.

## BIO PROCESSING CENTRE

Innovation Place operated the Bio Processing Centre, a contract processing centre in Saskatoon, for the first three months of 2014. The Bio Processing Centre extracts high value compounds from plant material, primarily for cosmetic and specialized food purposes.

On April 1, 2014, the facility was leased to and the equipment / inventory was purchased by a third party. The third party also employed several Innovation Place employees.

## OPERATIONAL HIGHLIGHTS

	For the nine months ending September 30, 2014	2014 Target
Employment growth within the parks	(781)	(191)
Vacancy	7.1%	5.8%

### Employment growth within the parks

The third quarter saw an additional decline of 179 employees working at Innovation Place.

### Vacancy

The increase in vacancy is due to tenants vacating in the first nine months of the year. The percentage is expected to decrease as space is re-leased.

## Financial Highlights

### Results of Operations

(in thousands \$)

	September 30, 2014 3 months	September 30, 2013 3 months	Change	September 30, 2014 9 months	September 30, 2013 9 months	Change
Revenue	\$ 9,862	\$ 10,089	\$ (227)	\$ 29,853	\$ 30,565	\$ (712)
Operating expenses	(8,941)	(8,377)	(564)	(26,352)	(25,416)	(936)
Net finance expense	(368)	(421)	53	(1,024)	(1,271)	247
Net loss from discontinued operations	0	(206)	206	(89)	(688)	599
Net Income	\$ 553	\$ 1,085	\$ (532)	\$ 2,388	\$ 3,190	\$ (802)

The decrease in revenue is the result of higher vacancy at the parks. The 7.1% vacancy percentage at September 30, 2014 is 3.2% higher than the vacancy percentage at September 30, 2013.

The increase in operating expenses is due primarily to increased utility costs, the result of higher heating costs and additional services being provided.

### Financial Position

(in thousands \$)

	As at September 30, 2014	As at December 31, 2013	Change
Total assets	\$ 190,652	\$ 193,658	(3,006)
Total liabilities	40,694	42,644	(1,950)
Equity	\$ 149,958	\$ 151,014	(1,056)

The decrease in assets is due to a \$1,927,000 decrease in cash and cash equivalents, due primarily to the \$2,000,000 equity repayment and change in non-cash working capital.

The decrease in liabilities is due to lower trade and other payables at September 30, 2014, the result of the settlement of the outstanding legal issue in the first quarter and general decline in trade payables outstanding at period end.

## Outlook

Net income forecasted to December 31, 2014 is \$2,285,000. This represents an unfavourable variance of \$497,000 from the annual budgeted net income of \$2,782,000 due mainly to increased vacancy at the parks.

Total capital expenditures for 2014 are forecasted to be \$7,037,000, reflecting a decrease of \$1,410,000 when compared to the amount originally budgeted for the year.

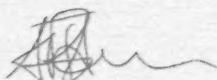
# MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Saskatchewan Opportunities Corporation have been prepared by corporate management in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting, and necessarily include amounts based on informed judgment and management estimates. Financial information presented elsewhere in this quarterly report is consistent with that in the financial statements.

Ensuring the integrity and objectivity of financial information is an integral part of management's responsibility to the ongoing operation. Management maintains an appropriate system of internal controls, policies and procedures to provide reasonable assurance that all financial transactions are recorded on a timely basis with proper approvals and result in reliable financial statements.

The Board of Directors has reviewed and approved these unaudited interim financial statements.

On behalf of management,



**S.P. (Van) Isman**  
President and Chief Executive Officer



**Brent Sukenik, CA**  
Chief Financial Officer and Acting Vice President



# FINANCIAL REPORT

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

(\$ Thousands - Unaudited)

	September 30, 2014 3 months	September 30, 2013 3 months As restated (note 4)	September 30, 2014 9 months	September 30, 2013 9 months As restated (note 4)
<b>Revenue</b>				
Rental	\$ 9,816	\$ 10,065	\$ 29,703	\$ 30,415
Other	46	24	150	150
	9,862	10,089	29,853	30,565
<b>Expenses</b>				
Administration	1,073	1,097	3,430	3,189
Rental operations	7,868	7,280	22,922	22,227
	8,941	8,377	26,352	25,416
<b>Results before the following</b>	921	1,712	3,501	5,149
Finance income	70	17	277	30
Finance expenses	(438)	(438)	(1,301)	(1,301)
<b>Net Finance Income (Expense)</b>	(368)	(421)	(1,024)	(1,271)
<b>Profit from continuing operations</b>	553	1,291	2,477	3,878
<b>Loss on discontinued operations (note 4)</b>	0	(206)	(89)	(688)
<b>Net Income and Total Comprehensive Income</b>	\$ 553	\$ 1,085	\$ 2,388	\$ 3,190



# CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

(\$ Thousands - Unaudited)

	At September 30, 2014	At December 31, 2013
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 9,385	\$ 11,312
Trade and other receivables	3,027	1,624
Inventories	162	203
Prepaid Expenses	864	54
	13,438	13,193
Trade and other receivables	249	1,372
Property, plant and equipment	1,276	2,986
Investment property	172,327	173,128
Debt retirement fund	2,215	1,676
Other assets	1,147	1,303
	\$ 190,652	\$ 193,658
<b>Liabilities and Province's Equity</b>		
Current		
Trade and other payables	\$ 2,766	\$ 5,422
Dividends payable	532	0
Deferred revenue	712	538
	4,010	5,960
Long term debt	36,684	36,684
	40,694	42,644
Province of Saskatchewan's Equity		
Retained earnings	31,271	30,327
Equity advances	118,687	120,687
	149,958	151,014
	\$ 190,652	\$ 193,658

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

(\$ Thousands - Unaudited)

	Equity Advances	Retained Earnings	Total Equity
<b>Balance at December 31, 2012</b>	\$ 120,687	\$ 29,565	\$ 150,252
Net income for the year	-	2,438	2,438
Dividends declared for the year	-	(1,676)	(1,676)
<b>Balance at December 31, 2013</b>	\$ 120,687	\$ 30,327	\$ 151,014
Net income for the period	-	2,388	2,388
Dividends declared for the period	-	(1,444)	(1,444)
Equity repayment	(2,000)	-	(2,000)
<b>Balance at September 30, 2014</b>	\$ 118,687	\$ 31,271	\$ 149,958

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

(\$ Thousands - Unaudited)

	September 30, 2014 (3 months)	September 30, 2013 (3 months)	September 30, 2014 (9 months)	September 30, 2013 (9 months)
<b>Operating Activities</b>				
Net income	\$ 553	\$ 1,085	\$ 2,388	\$ 3,190
Non-cash adjustments:				
Amortization of property, plant and equipment	90	104	308	322
Amortization of investment property	2,035	1,786	5,671	5,328
Loss of disposal of property, plant and equipment	0	0	42	0
Finance income	(70)	(17)	(277)	(30)
Finance expense	438	438	1,301	1,301
	3,046	3,396	9,433	10,111
Working capital adjustments:				
Trade and other receivables	361	819	(32)	416
Inventory	(43)	(22)	41	(55)
Prepaid expenses	783	846	(810)	(841)
Trade and other payables, excluding interest	(22)	176	(2,551)	(1,121)
Deferred revenue	(230)	(196)	174	(252)
Cash provided by operating activities	3,895	5,019	6,255	8,258
<b>Investing Activities</b>				
Purchase of property, plant and equipment	(38)	(27)	(110)	(124)
Purchase of investment property	(2,059)	(1,548)	(3,642)	(3,198)
Interest received	27	29	99	90
Increase in other assets	45	(274)	156	(371)
Cash used in investing activities	(2,025)	(1,820)	(3,497)	(3,603)
<b>Financing Activities</b>				
Debt retirement installments	(237)	(237)	(367)	(367)
Interest paid	(558)	(558)	(1,428)	(1,428)
Dividends paid	(286)	(486)	(890)	(1,928)
Equity Repayment	0	0	(2,000)	0
Cash used in financing activities	(1,081)	(1,281)	(4,685)	(3,723)
<b>Net change in Cash and Cash Equivalents during the period</b>	789	1,918	(1,927)	932
<b>Cash and Cash Equivalents, beginning of period</b>	8,596	7,939	11,312	8,925
<b>Cash and Cash Equivalents, end of period</b>	\$ 9,385	\$ 9,857	\$ 9,385	\$ 9,857



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(\$ Thousands - Unaudited)

## 1. General Information

Saskatchewan Opportunities Corporation (the "Corporation"), which operates under the business name of Innovation Place, was incorporated under *The Saskatchewan Opportunities Corporation Act*, which was proclaimed and came into force in 1994. The Corporation is an agent of Her Majesty in Right of the Province of Saskatchewan and has been designated a subsidiary of Crown Investments Corporation (CIC). The financial results of the Corporation are included in the consolidated financial statements of CIC. As a provincial Crown corporation, the Corporation is subject to neither federal nor provincial income tax.

The Corporation's mandate is to create, encourage and facilitate business opportunities in the Saskatchewan technology sector, primarily through the development and operation of technology parks.

The Corporation's head office is located at 114 – 15 Innovation Boulevard in Saskatoon, Saskatchewan.

## 2. Basis of Preparation

### a) Statement of compliance

The condensed consolidated interim financial statements for the nine months ended September 30, 2014 have been prepared in accordance with the recognition and measurement requirements of IFRS and the presentation and disclosure requirements of International Accounting Standards 34, *Interim Financial Reporting*. These interim results should be read in conjunction with the consolidated financial statements of the Corporation as at, and for the period ended, December 31, 2013.

### b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for held-for-trading financial instruments which are measured at fair value.

### c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

**d) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant items subject to estimates and assumptions include the carrying amounts of property, plant and equipment and investment property, and the underlying estimations of useful lives, capitalization of interest, disposal of long-lived assets, asset retirement obligations, and labour and directly attributable overhead, provision for unpaid claims, the carrying amounts of accounts receivable, inventory and investments.

Areas of judgments in applying accounting policies that have the most effect on the amounts recognized in these condensed consolidated interim financial statements include the accounting for special purpose entities and the determination of cash generating units.

**3. Significant Accounting Policies**

The accounting policies applied by the Corporation in these condensed consolidated interim financial statements are consistent with those applied by the Corporation in its consolidated financial statements as at, and for the period ended, December 31, 2013.

**4. Discontinued Operations**

Effective April 1, 2014, the Corporation entered into an agreement with a third party that resulted in the transfer of Bio Processing operations to that party. As part of the agreement, all processing equipment and inventory was sold to the third party. The Corporation retained ownership of the building housing the processing facility which was leased to the third party through a long-term lease arrangement.

The results of discontinued operations are as follows:

	<b>September 30, 2014 3 months</b>	<b>September 30, 2013 3 months</b>	<b>September 30, 2014 9 months</b>	<b>September 30, 2013 9 months</b>
Bio Processing revenue	\$ 0	\$ 260	\$ 487	\$ 788
Administration salaries and expenses	0	78	89	275
Bio Processing operating expenses	0	388	487	1,201
Net loss from discontinued operations	\$ 0	\$ (206)	\$ (89)	\$ (688)

The statement of cash flows includes the following amounts relating to discontinued operations:

	<b>September 30, 2014 3 months</b>	<b>September 30, 2013 3 months</b>	<b>September 30, 2014 9 months</b>	<b>September 30, 2013 9 months</b>
Cash provided by operating activities	\$ 0	\$ (173)	\$ 37	\$ (588)
Net cash from discontinued operations	\$ 0	\$ (173)	\$ 37	\$ (588)

## 5. Operating and Administration Expenses

Total operating and administration expenses, excluding discontinued operations, was as follows:

	<b>September 30, 2014 3 months</b>	<b>September 30, 2013 3 months</b>	<b>September 30, 2014 9 months</b>	<b>September 30, 2013 9 months</b>
Employee benefits	\$ 2,460	\$ 2,501	\$ 7,505	\$ 7,524
Utilities	1,221	1,129	3,801	3,140
Grants in lieu of property taxes	734	713	2,736	2,786
Amortization	2,125	1,858	5,945	5,551
Inventory consumed in the provision of services	167	198	462	586
Other	2,234	1,978	5,903	5,829
	<b>\$ 8,941</b>	<b>\$ 8,377</b>	<b>\$ 26,352</b>	<b>\$ 25,416</b>





Corporate Office

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